

Gunnison Watershed School District RE-1J

Financial Report

June 30, 2013



**Gunnison Watershed School District RE-1J
Financial Report
June 30, 2013**

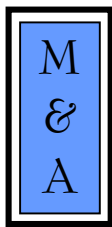
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INDEPENDENT AUDITOR'S REPORT

**To the Board of Education
Gunnison Watershed School District RE-J1**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Gunnison Watershed School District RE-1J (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Member: American Institute of Certified Public Accountants

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Gunnison Watershed School District RE-1J as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis in Section B be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison information in section E is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements taken as a whole. The combining fund financial statements and individual fund budgetary information in section F and G of the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the District's financial statements. The combining fund financial statements and the individual fund budgetary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Additionally, the Schedule of Expenditures of Federal Awards included in the Single Audit section is presented for the purpose of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the District's financial statements. Such information has been subjected to the auditing procedures applied audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**McMahan and Associates, L.L.C.
Avon, Colorado
December 17, 2013**

Gunnison Watershed School District RE-1J

Management's Discussion and Analysis



Gunnison Watershed School District RE-1J

Management Discussion and Analysis

As management of Gunnison Watershed School District RE-1J, we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statement, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities as of June 30, 2013 by \$16,394,589 (net position). Of this amount, \$3,288,204 will be used to meet the District's ongoing obligation to students, employees and creditors. The remaining balance is restricted for debt service or represents the net investment in capital assets.
- The District's net position increased by \$158,355.
- The District's General Fund had a fund balance of \$3,020,116, or 21% of total General Fund Expenditures.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The *statement of net position* presents information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial health of the District.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event effecting the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and changes in long-term compensated absences).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues. The two categories reported in the district-wide financial statements are as follows:

- **Governmental activities:** Most of the District's basic services are included here, such as instructional services, support services, and student activities.
- **Business-type activities:** The food service program is included under this heading.

The district-wide financial statements also include Marble Charter School, which is a discretely presented component unit of the District.

The district-wide financial statements can be found on pages C1 and C2 of this report.

Fund Financial Statements

A fund is a grouping of self-balancing, related accounts that are used to maintain control over resources that have been segregated for specific purposes. Our District uses fund accounting to ensure and demonstrate compliance with financial and government fund and proprietary funds.

Government Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The District's most significant, or "major" governmental funds include the General Fund, Bond Redemption Fund, and the Capital Reserve Capital Projects Fund.

The District adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for all funds to demonstrate compliance with state budget statutes.

The basic major governmental fund statements start on page C3.

Proprietary Funds

At this time, the District maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its nutritional services. Proprietary funds provide the same type of information to account for its nutritional services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic Proprietary Fund financial statements can be found on pages C7 thru C9, of this report.

Fiduciary Funds

The District is the agent, or fiduciary, for assets that belong to others, such as the Scholarship Trust Activity Fund. The District is responsible for ensuring the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations. The basic fiduciary financial statements can be found on page C10.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

An annual review of net position may serve as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$15,794,908 in governmental activities and \$599,681 in business activities. In the previous year of 2012, the assets exceeded liabilities by \$15,587,297 in governmental activities (this amount was restated in 2013) and by \$648,937 in business activities.

The assets of the District are classified as current assets, non-current assets, and capital assets. Current assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of the property tax receivables and cash and investments.

Capital assets are made up of land, buildings, equipment/vehicles, and construction in progress. Current and long-term liabilities are classified based upon anticipated liquidation, either in the near-term or in the future.

Statement of Net Position

The following table provides a summary of the District's net position as of the fiscal year ended June 30, 2013.

Gunnison Watershed School District RE-1J Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 10,656,212	10,057,173	166,457	177,226	10,822,669	10,234,399
Capital assets, net	66,535,099	68,153,047	448,588	480,714	66,983,687	68,633,761
Total Assets	77,191,311	78,210,220	615,045	657,940	77,806,356	78,868,160
Liabilities:						
Other liabilities	2,079,310	4,387,923	15,364	9,003	2,094,674	4,396,926
Long-term liabilities	59,317,093	58,235,000	-	-	59,317,093	58,235,000
Total Liabilities	61,396,403	62,622,923	15,364	9,003	61,411,767	62,631,926
Net Position:						
Net investment in capital assets	7,362,324	7,520,633	448,588	480,714	7,810,912	8,001,347
Restricted	5,295,473	4,035,246	-	-	5,295,473	4,035,246
Unrestricted	3,137,111	4,031,418	151,093	168,223	3,288,204	4,199,641
Total Net Position	\$ 15,794,908	15,587,297	599,681	648,937	16,394,589	16,236,234

Of the District's total assets, 86% are capital assets (e.g. land, buildings, and equipment). The District uses these assets to provide instruction and related services to its students.

Net position for governmental activities increased by \$207,611. The following graph summarizes the District's change in net position:

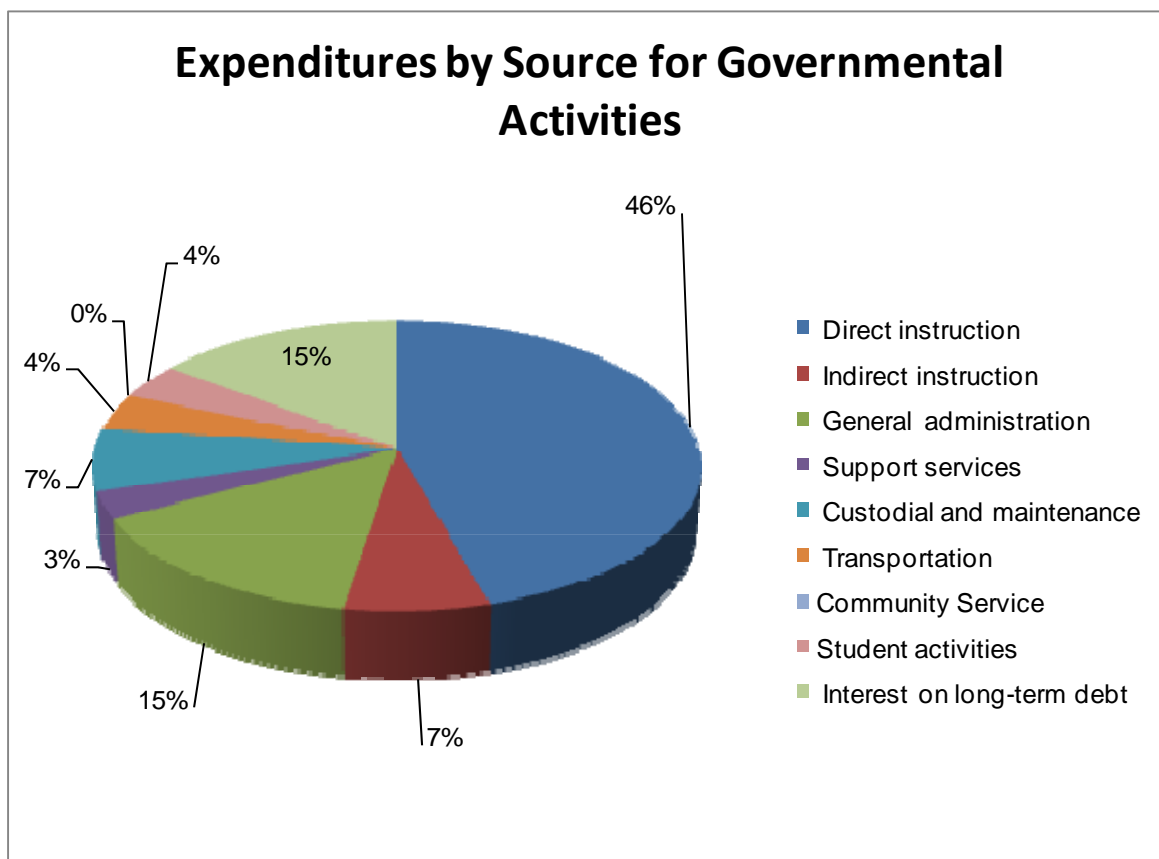
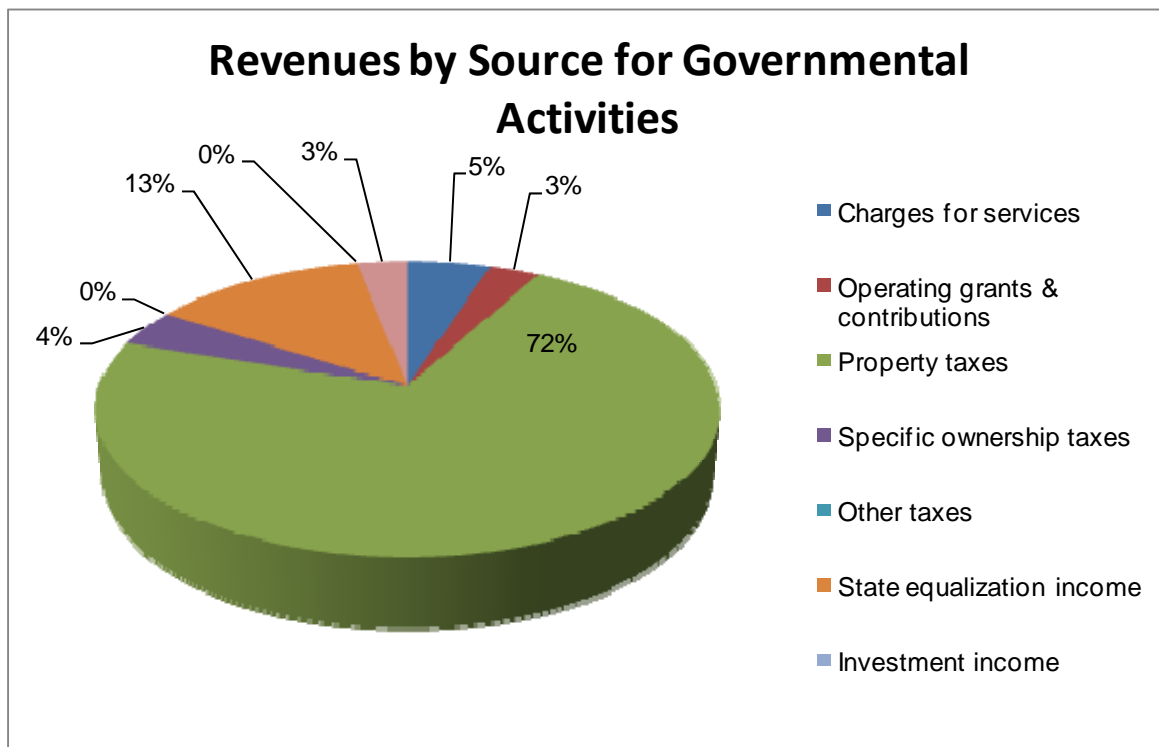
Gunnison Watershed School District RE-1J Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 912,903	794,164	276,242	271,264	1,189,145	1,065,428
Operating grants & contributions	682,183	755,978	185,869	176,140	868,052	932,118
Capital grants & contributions	-	2,472	-	-	-	2,472
General revenues:						
Property taxes	14,310,149	15,178,645	-	-	14,310,149	15,178,645
Specific ownership taxes	708,645	703,768	-	-	708,645	703,768
State equalization income	2,501,415	1,734,334	-	-	2,501,415	1,734,334
Investment income	77,954	84,394	-	-	77,954	84,394
Other revenue	576,052	699,105	-	-	576,052	699,105
Contribution of assets	-	(1,227,375)	-	-	-	(1,227,375)
Gain (loss) on disposal of assets	502	-	-	-	502	-
Total Revenues	19,769,803	18,725,485	462,111	447,404	20,231,914	19,172,889
Expenses:						
Direct instruction	8,937,762	9,347,764	-	-	8,937,762	9,347,764
Indirect instruction	1,291,775	1,383,632	-	-	1,291,775	1,383,632
General administration	2,925,571	1,468,837	-	-	2,925,571	1,468,837
Support services	553,084	503,408	-	-	553,084	503,408
Custodial and maintenance	1,445,187	1,369,519	-	-	1,445,187	1,369,519
Transportation	726,787	658,937	-	-	726,787	658,937
Community Service	385	-	-	-	385	-
Student activities	690,155	-	-	-	690,155	-
Food service	-	-	611,367	577,379	611,367	577,379
Unallocated depreciation	-	1,642,716	-	-	-	1,642,716
Interest on long-term debt	2,891,486	2,983,953	-	-	2,891,486	2,983,953
Total Expenses	19,462,192	19,358,766	611,367	577,379	20,073,559	19,936,145
Change in Net Position						
Before Transfers	307,611	(633,281)	(149,256)	(129,975)	158,355	(763,256)
Transfers	(100,000)	-	100,000	129,975	-	129,975
Change in Net Position	207,611	(633,281)	(49,256)	-	158,355	(633,281)
Net Position - Beginning of Year (restated)						
	15,587,297	16,220,578	648,937	648,937	16,236,234	16,869,515
Net Position - End of Year	\$ 15,794,908	15,587,297	599,681	648,937	16,394,589	16,236,234

Property taxes, specific ownership tax, and per pupil state formula revenue (School Finance Act-State Equalization) account for most of the District's revenue. The remaining revenue comes from grants and contributions with the remainder from fees charged for services and miscellaneous sources.

The District's expenses predominantly relate to instruction and support services, which include support for students and instructional staff, administration, operations and maintenance, and transportation. Given that the District is a service organization providing education services to students, the majority of the expenses are paid in the form of compensation (salaries and benefits) to the District's employees.

The following chart displays the revenues by source for the total District:



The District's expenses are predominately related to instruction, with the general administrative and support services, transportation, operations and maintenance, and interest on bond payments accounting for the remaining expenditures.

Business Type Activities: Business-type activities decreased by \$49,256. The Food Service fund is the only fund comprising our business activities. The transfer into the food service fund from the general fund was \$100,000.

Financial Analysis of the District's Funds: As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned balances may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year. The District did increase their unassigned balance, or fund balance, at the end of this fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,794,908 which is an increase of \$207,611 from the prior year ending fund balances.

Proprietary Funds: The District's proprietary funds provide the same type of information found in the district-wide financial statements, but in more detail. As of June 30, 2013, the District's sole proprietary fund, the food service fund, had net position of \$599,681.

General Fund Budgetary Highlights: The District's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General Fund. The original budget is prepared based on a conservative estimate of student growth. This guarantees the District does not overstaff or overextend its financial capabilities. The General Fund's actual results were under budgeted appropriations by \$219,933.

Capital Assets and Debt Administration: The District's investment in capital assets for governmental and business type activities as of June 30, 2013 amounts to \$66,983,687 (net accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and vehicles.

Long Term Debt: As of June 30, 2013, the District had outstanding debt of \$59,172,775.

Economic Factors and Next Year's Budget: The Public School Finance Act of 1994 is the largest source of revenue for the District's operating funds. The School Finance Act calculates per-pupil funding by school District based upon a formula that takes into consideration the cost of living, number of students, District size, personnel vs. non-personnel, and number of at-risk students. The purpose of this act was to establish a financial base of support for public education, to move towards a uniform mill levy tax statewide for all Districts, and to limit future growth of and reliance upon property tax to support public education. Funding sources for the School Finance Act is derived by the following formula:

Total Program Funding = local property taxes + general specific ownership taxes + state equalization

School District finance is also significantly affected by Amendment 23, which was approved by the voters in November 2000. This state constitutional amendment requires that statewide base per pupil funding and state categorical program funding increase by inflation plus one percent for ten years beginning with the fiscal year ended June 30, 2002. After that ten-year window has expired, the state must increase funding at the rate of inflation. This funding calculation attempts to align Colorado Districts to inflation adjusted funding levels of 1988. The formula will also increase the District's reliance upon the state and decrease the District's reliance upon funding over time.

Next Year's Budget and Fund Balance: The District's General Fund balance at the end of fiscal year 2013 is \$3,020,116. The subsequent year's budget for fiscal year 2014 is fiscally balanced.

Request for Information:

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Business Office, Gunnison Watershed School District RE-1J, 800 North Boulevard, Gunnison, Colorado 81230.

Gunnison Watershed School District RE-1J

Basic Financial Statements



Gunnison Watershed School District RE-1J

Statement of Net Position

June 30, 2013

	Primary Government			Component Unit
	Business -			
	Governmental	Type	Total	Marble Charter
ASSETS	Activities	Activities		School
Cash and cash equivalents	8,890,345	1,855	8,892,200	46,708
Accounts receivable, net:				
Taxes	1,690,305	-	1,690,305	-
Other governments	-	-	-	175,351
Other	196,792	22,621	219,413	6,630
Internal balances	(137,757)	137,757	-	-
Prepaid expenses	16,528	-	16,528	-
Inventory	-	4,224	4,224	-
Total current assets	<u>10,656,213</u>	<u>166,457</u>	<u>10,822,670</u>	<u>228,689</u>
Capital assets:				
Land	2,866,151	-	2,866,151	-
Buildings and improvements	75,989,683	-	75,989,683	1,838,314
Equipment	956,724	642,520	1,599,244	-
Vehicles	2,002,541	-	2,002,541	-
Less: Accumulated depreciation	(15,280,000)	(193,932)	(15,473,932)	(431,931)
Net capital assets	<u>66,535,099</u>	<u>448,588</u>	<u>66,983,687</u>	<u>1,406,383</u>
Total assets	<u>77,191,312</u>	<u>615,045</u>	<u>77,806,357</u>	<u>1,635,072</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	201,665	1,817	203,482	3,838
Accrued salaries	1,462,267	4,880	1,467,147	36,013
Due to component unit	175,351	-	175,351	-
Accrued interest	240,028	-	240,028	-
Total current liabilities	<u>2,079,311</u>	<u>6,697</u>	<u>2,086,008</u>	<u>39,851</u>
Noncurrent liabilities:				
Accrued compensated absences	144,318	-	144,318	-
Bonded debt and capital leases:				
Due within one year	1,690,000	-	1,690,000	-
Due in more than one year	57,482,775	-	57,482,775	-
Total noncurrent liabilities	<u>59,317,093</u>	<u>-</u>	<u>59,317,093</u>	<u>-</u>
Total liabilities	<u>61,396,404</u>	<u>6,697</u>	<u>61,403,101</u>	<u>39,851</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	-	8,667	8,667	-
Total deferred inflows of resources	<u>-</u>	<u>8,667</u>	<u>8,667</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	7,362,324	448,588	7,810,912	1,406,383
Restricted for:				
TABOR	440,255	-	440,255	11,250
Colorado Preschool Program	18,236	-	18,236	-
Debt service	3,617,373	-	3,617,373	-
Capital projects	1,219,609	-	1,219,609	-
Unrestricted	<u>3,137,111</u>	<u>151,093</u>	<u>3,288,204</u>	<u>177,588</u>
Total net position	<u>15,794,908</u>	<u>599,681</u>	<u>16,394,589</u>	<u>1,595,221</u>

The accompanying notes are an integral part to these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J

Statement of Activities

For the Year Ended June 30, 2013

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business - Type Activities	Total	Marble Charter School
GOVERNMENTAL ACTIVITIES:								
Direct instruction	8,937,762	210,836	682,183	-	(8,044,743)		(8,044,743)	
Indirect instruction	1,291,775	-	-	-	(1,291,775)		(1,291,775)	
General administration	2,925,571	-	-	-	(2,925,571)		(2,925,571)	
Support services	553,084	-	-	-	(553,084)		(553,084)	
Custodial and maintenance	1,445,187	-	-	-	(1,445,187)		(1,445,187)	
Transportation	726,787	-	-	-	(726,787)		(726,787)	
Community service	385	-	-	-	(385)		(385)	
Student activities	690,155	702,067	-	-	11,912		11,912	
Interest on long-term debt	2,891,486	-	-	-	(2,891,486)		(2,891,486)	
Total governmental activities	19,462,192	912,903	682,183	-	(17,867,106)		(17,867,106)	
BUSINESS-TYPE ACTIVITIES:								
Food services	611,367	276,242	185,869	-		(149,256)	(149,256)	
Total business-type activities	611,367	276,242	185,869	-		(149,256)	(149,256)	
Total Primary Government	20,073,559	1,189,145	868,052	-	(17,867,106)	(149,256)	(18,016,362)	
COMPONENT UNIT:								
Marble Charter School	400,831	54,773						(346,058)
GENERAL REVENUES:								
Taxes:								
Property taxes - Levied for general operations					10,150,868	-	10,150,868	307,627
Property taxes - Levied for debt service					4,159,281	-	4,159,281	-
Specific ownership taxes					708,645	-	708,645	-
State equalization income					2,501,415	-	2,501,415	-
Grants and contributions not restricted to specific programs					576,052	-	576,052	5,670
Investment income					77,954	-	77,954	-
Gain (loss) on disposal of assets					502	-	502	-
Transfers					(100,000)	100,000	-	-
Total general revenues and transfers					18,074,717	100,000	18,174,717	(32,761)
Change in net position					207,611	(49,256)	158,355	(32,761)
Net position, beginning					15,450,164	648,937	16,099,101	1,627,982
Prior period period adjustment - See Note IV.F.					582,861	-	582,861	-
Change in Accounting Principle - See Note IV.E.					(445,728)	-	(445,728)	-
Net position, beginning (Restated)					15,587,297	648,937	16,236,234	1,627,982
Net position, ending					15,794,908	599,681	16,394,589	1,595,221

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J

**Balance Sheet
Governmental Funds
June 30, 2013**

	General Fund	Bond Redemption Fund	Capital Reserve Capital Projects Fund	Pupil Activity Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	5,217,642	3,270,371	-	402,331	8,890,344
Accounts receivable, net:					
Taxes	760,444	347,002	-	-	1,107,446
Other	196,792	-	-	-	196,792
Due from other funds	36,261	-	1,219,609	-	1,255,870
Prepaid expenses	16,528	-	-	-	16,528
Total assets	6,227,667	3,617,373	1,219,609	402,331	11,466,980
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	189,132	-	-	31,257	220,389
Accrued salaries	1,443,544	-	-	-	1,443,544
Due to component unit	175,351	-	-	-	175,351
Due to other funds	1,399,524	-	-	(5,897)	1,393,627
Total liabilities	3,207,551	-	-	25,360	3,232,911
Fund balances:					
Non-spendable:					
Prepaid expenses	16,528	-	-	-	16,528
Restricted:					
TABOR	440,255	-	-	-	440,255
Colorado Preschool Program	18,236	-	-	-	18,236
Debt service	-	3,617,373	-	-	3,617,373
Capital projects	-	-	1,219,609	-	1,219,609
Committed	1,761,022	-	-	-	1,761,022
Assigned	-	-	-	376,971	376,971
Unassigned	784,075	-	-	-	784,075
Total fund balances	3,020,116	3,617,373	1,219,609	376,971	8,234,069
Total liabilities and fund balances	6,227,667	3,617,373	1,219,609	402,331	11,466,980

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Governmental Funds Total Fund Balance			8,234,069
<i>Add:</i>			
Property taxes receivable will be collected this calendar year, but are not available soon enough to pay for the current period's expenditures and therefore, are deferred in the funds.			582,861
Capital assets used in governmental activities are not considered current financial resources and therefore, are not reported in the governmental funds:			
	Capital assets	81,815,099	
	Accumulated depreciation	<u>(15,280,000)</u>	66,535,099
<i>Less:</i>			
Deferred charges such as deferred refunding costs, premiums, and discounts on bonded debt, are treated as current transactions on the fund financial statements, but are capitalized and amortized on the Statement of Net Position:			
	Premiums and discounts on bonded debt	<u>(937,775)</u>	(937,775)
Long-term liabilities, including bonds payable, arbitrage payable, accrued compensated absences, leases payable, and accrued interest are not due and payable in the current period and therefore, are not reported in the funds. This is the amount of District long-term liabilities:			
	Bonds payable	(58,235,000)	
	Accrued compensated absences	(144,318)	
	Accrued interest	<u>(240,028)</u>	<u>(58,619,346)</u>
Governmental Activities Net Position			<u><u>15,794,908</u></u>

The accompanying notes are an integral part of these statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Bond Redemption Fund	Capital Reserve Capital Projects Fund	Pupil Activity Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	9,745,131	4,565,018	-	-	14,310,149
Specific ownership taxes	708,645	-	-	-	708,645
Federal income	639,044	-	-	-	639,044
State income	3,064,656	-	-	-	3,064,656
Investment income	57,651	20,301	-	-	77,952
Other	266,788	-	-	-	266,788
Charges for services	-	-	-	702,067	702,067
Total revenues	<u>14,481,915</u>	<u>4,585,319</u>	<u>-</u>	<u>702,067</u>	<u>19,769,301</u>
EXPENDITURES					
Direct instruction	8,874,885	-	-	-	8,874,885
Indirect instruction	1,291,775	-	-	-	1,291,775
General administration	1,286,108	-	-	-	1,286,108
Support services	553,084	-	-	-	553,084
Custodial and maintenance	1,405,829	-	-	-	1,405,829
Transportation	634,550	-	-	-	634,550
Community service	385	-	-	-	385
Technology	-	-	40,391	-	40,391
Student activities	-	-	-	690,154	690,154
Capital outlay	152,835	-	-	475	153,310
Debt service:					
Principal	-	1,620,000	-	-	1,620,000
Interest and fiscal charges	-	2,935,425	-	-	2,935,425
Other	-	1,400	-	-	1,400
Total expenditures	<u>14,199,451</u>	<u>4,556,825</u>	<u>40,391</u>	<u>690,629</u>	<u>19,487,296</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>282,464</u>	<u>28,494</u>	<u>(40,391)</u>	<u>11,438</u>	<u>282,005</u>
OTHER FINANCING SOURCES (USES)					
Sale of fixed assets	702	-	-	-	702
Transfers in (out)	(1,360,000)	-	1,260,000	-	(100,000)
Total other financing sources (uses)	<u>(1,359,298)</u>	<u>-</u>	<u>1,260,000</u>	<u>-</u>	<u>(99,298)</u>
NET CHANGE IN FUND BALANCES	<u>(1,076,834)</u>	<u>28,494</u>	<u>1,219,609</u>	<u>11,438</u>	<u>182,707</u>
FUND BALANCES, BEGINNING	<u>4,096,950</u>	<u>3,588,879</u>	<u>-</u>	<u>365,533</u>	<u>8,051,362</u>
FUND BALANCES, ENDING	<u><u>3,020,116</u></u>	<u><u>3,617,373</u></u>	<u><u>1,219,609</u></u>	<u><u>376,971</u></u>	<u><u>8,234,069</u></u>

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Reconciliation of Revenues, Expenditures and Change in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Governmental Funds Change in Fund Balances	182,707
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Add:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlays reported as expenditures in the governmental funds.	13,094
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Debt principal payments result in a reduction of accumulated resources on the fund financial statements. The government-wide statements show these payments as reductions against long-term liabilities.	1,620,000
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Amortization of deferred costs such as premium and discounts on bonds payable and deferred charges from refundings and changes in accrued interest have no impact on current available resources but do change government-wide net position.	45,339
--	--------

Less:

The District has sold assets which are shown at their sales price on governmental funds but are shown as gain or loss on the sale of assets based upon sale price less asset's book value.	(200)
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Accrued compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the change in accrued compensated absences during the year.	(22,487)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense reported as an expenditure in the governmental activities' functions.	(1,630,842)
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Governmental Activities Change in Net Position	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">207,611</div>
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The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J

Statement of Net Position

Proprietary Fund

June 30, 2013

	Food Services Fund
ASSETS	
Current assets:	
Cash and cash equivalents	1,855
Accounts receivable, net:	
Other	22,621
Due from other funds	137,757
Inventories	4,224
Total current assets	<u>166,457</u>
Non-current assets:	
Equipment	642,520
Less: Accumulated depreciation	(193,932)
Total non-current assets	<u>448,588</u>
Total assets	<u>615,045</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	1,817
Accrued salaries	4,880
Total current liabilities	<u>6,697</u>
DEFERRED INFLOW OF RESOURCES	
Deferred revenue	8,667
Total deferred inflow of resources	<u>8,667</u>
NET POSITION	
Net investment in capital assets	448,588
Unrestricted	<u>151,093</u>
Total net position	<u><u>599,681</u></u>

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2013

	Food Services Fund
OPERATING REVENUES	
Food sales	276,242
Total operating revenues	<u>276,242</u>
OPERATING EXPENSES	
Salaries and employee benefits	300,587
Purchased services	954
Supplies	175
Food costs:	
Purchased food	260,357
Donated commodities	17,168
Depreciation	32,126
Total operating expenses	<u>611,367</u>
OPERATING INCOME (LOSS)	<u>(335,125)</u>
NONOPERATING REVENUES (EXPENSES)	
Federal aid:	
Federal government meal reimbursement	163,794
USDA Commodity contribution	17,168
State reimbursement	4,907
Total nonoperating revenues (expenses)	<u>185,869</u>
INCOME (LOSS) BEFORE TRANSFERS	(149,256)
Transfers in (out)	<u>100,000</u>
CHANGE IN NET POSITION	(49,256)
TOTAL NET POSITION, BEGINNING	<u>648,937</u>
TOTAL NET POSITION, ENDING	<u><u>599,681</u></u>

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2013

	Food Services Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from charges for services	255,976
Payments to vendors	(256,984)
Payments to employees	(300,587)
Net cash provided (used) by operating activities	<u>(301,595)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers received	133,837
Federal and State reimbursements	168,701
Net cash provided (used) by noncapital financing activities	<u>302,538</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	943
Cash and Cash Equivalents, Beginning	<u>912</u>
Cash and Cash Equivalents, Ending	<u><u>1,855</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	<u>(335,125)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	32,126
Donated commodities	17,168
Changes in assets and liabilities related to operations:	
(Increase) decrease in accounts receivable	(21,384)
(Increase) decrease in inventory	(740)
(Increase) decrease in due to (from) other funds	(33,836)
Increase (decrease) in accounts payable	5,242
Increase (decrease) in due to other funds	33,836
Increase (decrease) in deferred commodities	1,118
Total adjustments	<u>33,530</u>
Net cash provided (used) by operating activities	<u><u>(301,595)</u></u>
Schedule of Noncash Transactions:	
Donated commodities acquired from USDA	17,168
Donated commodities used	<u>(17,168)</u>
Total noncash investing, capital and financing activities	<u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

Gunnison Watershed School District RE-1J

Notes to the Financial Statements



Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013

I. Summary of Significant Accounting Policies

Gunnison Watershed School District RE-1J (the "District") includes portions of both Gunnison and Saguache Counties. The District provides academic and vocational curriculum, student transportation, food services, athletic and cultural extracurricular activities, maintenance and general administrative services. The District operates the following schools:

Elementary Schools Gunnison Elementary	Middle Schools Gunnison Middle School	High School Gunnison High School
Preschool & Kindergarten Lake School	Community School Crested Butte Community School	Charter School Marble Charter School

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The District operates under an elected District Board of Education comprised of five members. As required by GAAP, the financial statements of the reporting entity include those of the District and its component units, entities for which the District is considered financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint the voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based upon the above criteria, the District has identified one discretely presented component unit.

The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding sources. However, the District is not included in any other governmental reporting entity.

Discretely Presented Component Units – Marble Charter School

The State of Colorado Legislature in 1993 enacted the "Charter School Act – Colorado Revised Statutes (CRS) Section 22-30-101." This Act permits the District to contract with individuals and organizations for the operation of schools within the District. The statutes define these contracted schools as "Charter Schools." Charter Schools are financed from a portion of the District's School Finance Act Revenues and from revenues generated by the Charter Schools, within the limits established by the Charter School Act. Charter Schools have separate governing boards; however, the District must approve all Charter School applications and budgets. Therefore, the Marble Charter School is included in the District's reporting entity because of the nature and significance of their operational or financial relationships with the District.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Complete financial statements can be obtained by contacting Marble Charter School, 418 West Main Street, Marble, Colorado 81623.

In 1995, the District approved a charter application through a resolution, allowing for the creation of the Marble Charter School ("Marble"). Marble is located in Marble, Colorado and provides educational services for grades kindergarten through seventh. Marble received an allocation of \$307,627 from the District for operations in the fiscal year ended June 30, 2013.

B. District-wide and Fund Financial Statements

The District's basic financial statements include both District-wide (financial activities of the overall District, except for fiduciary activities) and fund financial statements (reporting the District's major and non-major funds). The District-wide financial statements categorize primary activities as either governmental or business-type. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

1. District-wide Financial Statements

In the District-wide Statement of Net Position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The District-wide Statement of Activities reports both the gross and net cost of the District's governmental functions and business-type activity (i.e., food service). The governmental functions are also supported by general government revenues (property taxes, specific ownership taxes, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenues. As a general rule, the effect of interfund activity has been removed from these statements.

The District-wide focus is on the sustainability of the District as an entity and the change in the District's Net Position resulting from the current year's activities.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

B. District-wide and Fund Financial Statements (continued)

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. The General Fund has consolidated the *Colorado Preschool Fund*.

The *Debt Service Fund (Bond Redemption Fund)* accounts for transactions related to the District's general obligation bonds and interest.

The *Capital Reserve Capital Projects Fund* accounts for transactions related to the District's acquisitions and construction of capital facilities and other capital assets.

The remaining funds: the *Capital Projects Fund (Building Fund)* and *Student Activities Fund (Pupil Activity Fund)* are presented as non-major funds.

The District reports the following major proprietary fund:

The *Food Service Fund* accounts for the activities of the District's school breakfast and lunch programs.

The District also reports the following agency fund:

The *Scholarship Trust Agency Fund* accounts for scholarship funds held by the District and transferred out in the prior year.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Both the governmental and business-type activities in the district-wide financial statements as well as the proprietary fund and fiduciary fund financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

2. Current Financial Focus and Modified Accrual Basis

The District's governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Presentation

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts

1. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with original maturities of three months or less.

2. Investments

Investments are stated at fair value.

3. Receivables

Receivables are reported net of an allowance for uncollectible accounts.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

4. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by the governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable. Property tax receivables that are considered to be available (i.e. sixty days after year-end) are reported on the governmental fund financial statements. Property tax receivables that are not considered available (i.e. long term) are reported on the government wide Statement of Net Position.

5. Inventory

Inventories recorded in the *Food Service Fund* consist of purchased and donated commodities. Purchased inventories are valued at cost, while donated inventories, received at no cost under a program supported by the Federal Government, are recorded at their estimated fair value at the date of receipt using the first-in, first-out method.

6. Interfund Receivables and Payables

Balances at year-end between funds are reported as "due from / due to other funds" in the fund financial statements. Any residual balances not eliminated between the governmental and business-type activities are reported as "internal balances" in the district-wide financial statements.

7. Capital Assets

Capital assets, which include land, land improvements, construction in progress, buildings and improvements, equipment, and vehicles, are reported in the proprietary fund financial statements and the applicable governmental or business-type activity columns in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost where historical records are available and at an estimated historical cost where no historical record exists. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed for business-type activities, if applicable.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

7. Capital Assets (continued)

Buildings and improvements, equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Equipment	7-50
Vehicles	10

8. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. Accordingly, deferred revenue is deferred and recognized as an inflow of resources in the period that the amounts become available and earned.

9. Compensated Absences

Annual leave begins accruing on the first day of employment and accrues at the rate of eleven (11) days per year for non-classified staff and one (1) day per month for classified staff. Any unused vacation leave is paid out upon termination.

Non-Classified District employees with seventy-five (75) days of accumulated annual leave may request reimbursement of up to six (6) days of unused annual leave each year at \$50 per day. Retiring Non-Classified District employees with twenty (20) or more years of employment with the District can apply to be paid for up to one-hundred (100) days of accumulated annual leave at \$50 per day.

Vacation Leave – Classified year-round District employees may accrue unused vacation leave at their currently daily rate. In addition, District employees are paid for accumulated vacation at their current daily rate upon termination.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

9. Compensated Absences (continued)

Vested or accumulated leave that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated leave that are not expected to be liquidated with expendable available financial resources are reported in the governmental activities column in the District-wide financial statements. Vested or accumulated leave of the proprietary fund type is recorded as an expense and a liability of that fund as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights.

10. Long-term obligations

In the district-wide financial statements and proprietary fund types in the fund financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount and deferred refunding costs. Bond premiums, discounts, and deferred refunding costs are amortized over the life of the bonds based on interest payments.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the fund financial statements.

11. Fund Equity

Governmental accounting standards establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, include Non-spendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements.

Unassigned fund balance is a residual classification within the *General Fund*. The *General Fund* should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

12. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

E. Significant Accounting Policies

1. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

2. Credit Risk

The receivables of the various funds of the District are primarily due from other governments. Management believes that the credit risk related to the receivables is minimal.

3. Subsequent Events

Management has evaluated subsequent events through December 17, 2013; the date that these financial statements were available to be issued.

4. Fund Balance Policy

The District has adopted minimum fund policy for the General Fund. The policy requires a minimum fund balance of at least 15% of the estimated General Fund expenditures.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

II. Stewardship, Compliance, and Accountability

A. Bond Trustee

Colorado state statutes require all property taxes levied for the purpose of satisfying bonded indebtedness to be administered by at least one third party custodian designated by the District. The third party custodian is required to ensure all taxes levied to satisfy the obligations of bonded indebtedness are used accordingly. The District has entered into a custody agreement with Gunnison County, Colorado in order to meet this requirement.

B. Budgetary Information

Budgets are adopted on a basis consistent with GAAP. As required by Colorado Statutes, all funds have legally adopted budgets and appropriations. The total expenditures for each fund may not exceed the amount appropriated. Appropriations for a fund may be increased if unanticipated revenues offset them. All appropriations lapse at year-end.

As required by Colorado Statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for fiscal year 2013:

1. The proposed budget was submitted to the District Board of Education by May 31 of the year preceding the budget year. The proposed budget must include a description of major educational objectives and how the proposed budget fulfills those objectives.
2. Notice was published within ten (10) days which contained: availability of proposed budget for inspection, date and time of budget adoption meeting, and that any County taxpayer may file objections prior to the adoption of the budget.
3. The District Board of Education certified revenue requirements to the local County Commissioners prior to December 15.
4. The final budget was adopted prior to June 30, along with an appropriation resolution.

During the year, supplemental appropriation ordinances were approved for the following funds:

Fund	Original Appropriation	Final Appropriation	Change
General Fund	14,087,886	14,267,646	179,760
Food Service Fund	526,814	568,383	41,569
Pupil Activity Agency Fund	646,317	699,058	52,741

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

II. Stewardship, Compliance, and Accountability (continued)

C. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government. Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue.

TABOR requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending. The District has reserved \$440,255 of its June 30, 2013 fund balances for this purpose.

In 1997, the District's electorate approved the following ballot question: *"Without increasing any tax rates or imposing any new tax shall Gunnison Watershed School District RE-J1 be authorized to collect, keep and expend all District revenues received in fiscal year 1998 and each year thereafter without regard to any spending, revenue raising or other limitation in Article X, Section 20 of the Colorado Constitution or other laws of the state?"*.

The District believes it is in compliance with the requirements of the TABOR Amendment. However, the Amendment is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

D. Expenditures in Excess of Budget

For the year ended June 30, 2013, expenditures in the following funds exceed budgeted appropriations which may be a violation of Colorado budget laws:

	<u>Final Budget</u>	<u>Actual</u>	<u>Expenditures in excess of budget</u>
Food Service Fund	568,383	611,367	42,984

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances for accounts over \$250,000 are collateralized as required by PDPA.

The District is governed by the deposit and investment limitations of state law. The deposits and investment balances (including the agency fund) at June 30, 2013, are as follows:

Type:	Standard & Poors Rating	Balance	Maturities	
			Less Than One Year	Less Than Five Years
Deposits:				
Petty Cash	Not rated	\$ 1,520	1,520	-
Checking accounts	Not rated	1,642,161	1,642,161	-
Investments:				
Investment pool	AAAm	7,248,519	7,248,519	-
		<u>\$ 8,892,200</u>	<u>8,892,200</u>	<u>-</u>

The investment pool represents investments in the Colorado Government Liquid Asset Trust ("COLOTRUST") which is a 2a7-like pool. The fair value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool.

Interest Rate Risk. The District limits investments maturities as required by state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. State statutes require the District to limit maturities to five years from the date of purchase. Maturities of investments held at June 30, 2013 are provided in the previous schedule. The District coordinates its investment maturities to closely match cash flow needs.

Credit Risk. State law specifies instruments in which local governments may invest, including obligations of the United States, certain U.S. governmental agency securities, local government investment pools, and commercial paper, among other items. The District's general investment policy is to invest surplus funds in accordance with state law, to ensure the preservation of capital, to ensure that adequate funds are available at all times to meet the financial obligations of the District when due, and to realize rates of return on invested funds which are comparable to market levels.

Concentration of Credit Risk. The District diversifies its investments by security type and institution. The District places no limit on the amount it may invest in any one issuer.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

B. Receivables

Receivables as of year-end for the District's major and non-major funds, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Bond Redemption Fund	Capital Reserve Capital Projects Fund	Pupil Activity Funds	Total Governmental Funds
Receivables:					
Taxes	\$ 760,444	347,002	-	-	1,107,446
Other	196,792	-	-	-	196,792
Gross receivables	957,236	347,002	-	-	1,304,238
Less: allowance for uncollectible	-	-	-	-	-
Net Receivables	\$ 957,236	347,002	-	-	1,304,238

Governmental funds report property tax receivable for property taxes levied in fiscal 2013 but not available until 2014.

C. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,866,151	-	-	2,866,151
Total capital assets, not being depreciated	2,866,151	-	-	2,866,151
Capital assets, being depreciated:				
Buildings and improvements	75,989,683	-	-	75,989,683
Equipment	956,724	-	-	956,724
Vehicles	1,989,947	13,094	(500)	2,002,541
Total capital assets being depreciated	78,936,354	13,094	(500)	78,948,948
Total capital assets - Cost	81,802,505	13,094	(500)	81,815,099
Less accumulated depreciation for:				
Buildings and improvements	(11,888,887)	(1,499,247)	-	(13,388,134)
Equipment	(280,561)	(39,358)	-	(319,919)
Vehicles	(1,480,010)	(92,237)	300	(1,571,947)
Total accumulated depreciation	(13,649,458)	(1,630,842)	300	(15,280,000)
Governmental activities capital assets, net	\$ 68,153,047	(1,617,748)	(200)	66,535,099

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Equipment	\$ 642,520	-	-	642,520
Total capital assets being depreciated	642,520	-	-	642,520
Less accumulated depreciation for:				
Equipment	(161,806)	(32,126)	-	(193,932)
Total accumulated depreciation	(161,806)	(32,126)	-	(193,932)
Total capital assets, being depreciated, net	480,714	(32,126)	-	448,588
Business-type activities capital assets, net	\$ 480,714	(32,126)	-	448,588

The District had \$2,276,192 of fully depreciated capital assets still in service at June 30, 2013.

The District had the following capital outlay and depreciation expense for the following functions:

	Capital Outlay	Depreciation Expense
Governmental activities:		
General administration	\$ 13,094	1,499,247
Custodial and maintenance	-	39,358
Transportation	-	92,237
Total - governmental activities	\$ 13,094	1,630,842
Business-type activities:		
Food services	-	32,126
Total - business-type activities	\$ -	32,126

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2013, was as follows:

Transfer In (Out)	Amount	Transfer Purpose
General Fund	\$ (1,511,710)	To fund operations in other funds
Preschool Fund	151,710	Funding from the General Fund.
Capital Projects	1,260,000	Funding from the General Fund.
Food Services Fund	100,000	Funding from the General Fund.
Total	\$ -	

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

D. Interfund Receivables, Payables, and Transfers (continued)

Transfers for fiscal year 2013 were as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General	\$ -	(1,399,524)
Preschool	36,261	-
Pupil Activity	-	5,897
Capital Reserve	1,219,609	-
Food Services	137,757	-
	<u>\$ 1,393,627</u>	<u>(1,393,627)</u>

E. Long-term Debt – Governmental Activities

1. General Obligation Refunding Bonds, Series 2004

On March 16, 2004, the District issued \$13,080,000 of its General Obligation Refunding Bonds, Series 2004. The proceeds of the bonds were used to refund the District's outstanding General Obligation Refunding Bonds, Series 1995, in the principal amount of \$12,185,000. The 1995 bonds are considered to be defeased and have been removed from long-term debt.

Principal and interest are payable semi-annually on June 1 and December 1 at rates from 2.00% to 5%. The final maturity date of the bonds is December 1, 2015. Bonds are not subject to redemption prior to their maturity dates.

2. General Obligation Bonds, Series 2008

On December 29, 2008, the District issued \$10,000,000 in General Obligation Bonds Series 2008, with a final maturity date of December 1, 2029, for the purpose of financing the costs of: improving, remodeling, repairing and making additions to District buildings; District-wide upgrades for security and life safety needs; and, to the extent funds are available after providing for the above purposes, for the purpose of equipping said facilities.

Principal and interest are payable semi-annually on June 1 and December 1 at rates from 5% to 5.125%.

Bonds maturing on or before December 1, 2018 are not subject to redemption prior to maturity. Bonds maturing on and after December 31, 2019 are subject to optional redemption prior to maturity at the option of the District at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

E. Long-term Debt – Governmental Activities (continued)

3. General Obligation Bonds, Series 2009

On January 20, 2009, the District issued \$45,000,000 in General Obligation Bonds Series 2009, with a final maturity date of December 1, 2033, for the purpose of financing the costs of: improving, remodeling, repairing and making additions to District buildings; District-wide upgrades for security and life safety needs; and, to the extent funds are available after providing for the above purposes, for the purpose of equipping said facilities.

Principal and interest are payable semi-annually on June 1 and December 1 at rates from 3.0% to 5.25%.

Bonds maturing on or before December 1, 2018 are not subject to redemption prior to maturity; Bonds maturing on and after December 31, 2019 are subject to optional redemption prior to maturity at the option of the District at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

The Series 2009 Bonds maturing on December 1, 2033 are subject to mandatory sinking fund redemption requirements as follows:

2030	\$3,730,000
2031	3,930,000
2032	4,130,000
2033	<u>4,350,000</u>
	<u>16,140,000</u>

4. Defeasance of Debt

As noted above, proceeds of 2004 refunding bond issuances were used to purchase U.S. government securities to retire previous bonds issues (i.e. 1995). Sufficient U.S. government, state and local governmental securities were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District's financial records. The amount of the District's defeased debt is not readily determinable.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

E. Long-term Debt – Governmental Activities (continued)

5. Schedule of Future General Obligation Bond

The District's aggregate annual debt service requirements for general obligation bonds and capital leases at June 30, 2013, are as follows:

Fiscal Year Ending	Debt		Total	
	Total Principal	Total Interest	Total Principal	Total Interest
2014	\$ 1,690,000	2,880,339	1,690,000	2,880,339
2015	1,735,000	2,813,976	1,735,000	2,813,976
2016	1,805,000	2,733,469	1,805,000	2,733,469
2017	1,905,000	2,653,419	1,905,000	2,653,419
2018	1,975,000	2,574,463	1,975,000	2,574,463
2018 - 2022	11,320,000	11,335,991	11,320,000	11,335,991
2024 - 2028	14,540,000	7,983,691	14,540,000	7,983,691
2029 - 2033	18,915,000	3,689,914	18,915,000	3,689,914
2034	4,350,000	114,188	4,350,000	114,188
Total	\$ 58,235,000	36,779,450	58,235,000	36,779,450
Add: Unamortized bond premium			937,775	
Total bonded debt			\$ 59,172,775	

6. Changes in Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
Refunding, Series 2004	5,975,000	-	(1,420,000)	4,555,000	1,465,000
Bonds, Series 2008	10,000,000	-	-	10,000,000	-
Bonds, Series 2009	43,880,000	-	(200,000)	43,680,000	225,000
Unamortized bond premiums/discounts	976,350	-	(38,575)	937,775	-
Accrued compensated absences	121,831	22,487	-	144,318	36,080
Total Governmental Activities	\$ 60,953,181	22,487	(1,658,575)	59,317,093	1,726,080

For governmental activities, compensated absences are liquidated by the General Fund.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

III. Detailed Notes on All Funds (continued)

F. Fund Balance Classifications

The District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts inherently non-spendable since they represent inventories, prepaid items, long-term portions of loans receivable, etc.

Spendable Fund Balance:

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board of the District. The District's original budget legislation begins with combining historical data, assessment of needs for the upcoming year and the District's platform to review, and/or make changes to each department's budget. The budget is formally presented to the School Board of the District via an advertised public process for their review, revisions and final approval by year-end. All subsequent budget requests made during the year, after School Board approval, must be presented via a public process and again approved by the School Board of the District. The District has committed \$1,761,022 for future year's expenditures as of June 30, 2013.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board of the District, or its management designees.

Unassigned – includes residual positive fund balance within the General Fund, which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes. The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit this, such as grant agreements that require dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts when expenditures are made. The District does not have an adopted minimum fund balance policy; however, the District's budget includes calculations of targeted reserve positions, which is reported annually to the School Board of the District.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

IV. Other Information

A. Employee Benefits

1. Defined Benefit Pension Plan – PERA

Plan Description. The District contributes to the School Division Trust Fund (“SDTF”), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The SDTF provides retirement and disability, post retirement annual increases, and death benefits for members or their beneficiaries. All employees of the District are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (“CRS”), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy. The District is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.00% and for the District is 10.15% of covered salary. A portion of the District’s contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (see subsequent note). The District is also required to pay an amortization equalization disbursement (“AED”) equal to 3.00% of the total payroll for the calendar year 2012 (3.00% of total payroll for the calendar year 2013). Additionally, the District is required to pay a supplemental amortization equalization disbursement (“SAED”) equal to 2.50% of the total payroll for the calendar year 2012 (3.00% of total payroll for the calendar year 2013). If the District rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions (including the AED and SAED) on the amounts paid for the retiree; however no member contributions are required. For the years ending June 30, 2013 and 2012 the District’s employer contributions for the SDTF were \$1,510,935 and \$1,393,411, respectively, equal to their required contributions for each year.

2. Postemployment Healthcare Benefits – PERA

Plan Description. The District contributes to the Health Care Trust Fund (the “HCTF”), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by writing to PERA of Colorado, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372)

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

IV. Other Information (continued)

A. Employee Benefits (continued)

3. Postemployment Healthcare Benefits – PERA (continued)

Funding Policy. The District is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements of the District are established under Title 24, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The District's contributions to HCTF for the years ending June 30, 2013 and 2012 were \$15,412 and \$14,213 respectively, equal to their required contributions for each year.

4. Defined Contribution Pension Plan – PERA

Plan Description. The SDTF members (see Note above) of the District may voluntarily contribute to the Voluntary Investment Program (401(k) Plan), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan provisions to the State Legislature.

Funding Policy. The 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS. The contribution requirements for the District are established under Title 24, Article 51, Section 1402 of the CRS, as amended. The 401(k) Plan member contributions from the District for the year June 30, 2013 were \$56,304. The employer contributions to the 401(k) Plan from the District for the year ended June 30, 2013 were \$22,202.

5. 403(b) Defined Contribution Pension Plan

Plan Description. The District offers participation in an independent 403(b) retirement savings plan. All employees are eligible except student teachers. Contribution limits are set by the IRS. The District contracts with American Fidelity Insurance Company ("AFPlanServ") as Plan Administrator. The District makes minimal contributions to the plan for limited segment of grandfathered employees.

6. 457(b) Deferred Compensation Plan

Plan Description. The District has a deferred compensation plan created in accordance with IRC Section 457 for employees working 30 hours or more per week. This plan is administered by Waddell & Reed. Participation in the plan is optional. Contribution limits are set by the IRS. The District makes minimal contributions to the plan for limited segment of grandfathered employees.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

IV. Other Information (continued)

B. Risk Management

Risk of Loss: The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, torts, theft of, damage to, and destruction of assets, and error and omissions. The District carries commercial coverage for these risks and claims and does not expect claims to exceed their coverage. For the last three years, settled claims have not exceeded commercial insurance coverage, nor has there been any reduction in insurance coverage.

Pupil Counts: Each year the District submits data regarding pupil counts to the Colorado Department of Education (CDE). The purpose of this data collection is to obtain required student level data as provided for by state statute(s), including information regarding students' funding eligibility as outlined in the Public School Finance Act of 1994 (22-54-101, C.R.S.).

The Student October Count is based on a one (1) day membership count in which districts are asked to report all students who are actively enrolled and attending classes through their district on that date. In an effort to ensure accurate reporting of those data fields associated with student funding, CDE conducts periodic compliance audits of each district's student October count data. This data not only determine per pupil funding, but also at risk and English Language Proficiency Act (ELPA) funding. CDE audits districts every one to four years, the frequency of which is determined by a number of factors including, but not limited to, the size and location of the district, as well as issues or concerns that might have arisen from prior audits.

The District believes its pupil count information is accurate and any adjustment would not be material.

C. Contingencies

1. Legal Claims

During the normal course of business, the District incurs claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives feel none of these claims or assertions are significant enough that they would materially affect the fairness of the presentation of the financial statements at June 30, 2013.

2. Federal Programs

Funds received from Federal grants are subject to audit and disallowance of ineligible cost. Management of the District feels any potential questioned or disallowed costs or liability arising from the Federal program audits would not materially affect the fairness of the presentation of the financial statements at June 30, 2013.

Gunnison Watershed School District RE-1J
Notes to the Financial Statements
June 30, 2013
(continued)

IV. Other Information (continued)

C. Contingencies (continued)

3. State Programs

The District receives payment for State equalization, State transportation and various other State revenues to fund programs. These grants and programs are subject to audit and may result in the District either refunding amounts due for overpayment or receiving additional revenue for underpayment by the State.

These adjustments can be material. The amount of these adjustments cannot be estimated or determined as of the date of these financial statements.

D. Colorado Department of Education Financing – Interest Free Loan Program

The Colorado Department of Education allows school districts to borrow funds up to the next year's estimated property tax collections for the specific district to cover operating expenditures. The program was established to assist districts who receive the majority of their program funding through local property taxes. Most property tax revenues are not received by school districts until the last four months of the fiscal year, resulting in a cash flow deficit. The loans are repaid to the State as property taxes are collected.

In the fiscal year, the District obtained financing in the amount of \$1,003,966 from the State of Colorado in order to meet the District's obligations. Repayment of borrowed funds occurred by the fiscal year end June 30, 2013.

E. Change in Accounting Principle – Implementation of Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities

The District implemented Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, which requires debt issuance costs, previously reported as an asset and amortized, to be recognized as an outflow at the time such costs are incurred. As such, the financial statements report a restatement of the beginning net position in the amount of \$445,728, which was the unamortized debt issuance cost at June 30, 2012.

F. Prior Period Adjustment

The District had not previously reported long term property tax receivables (i.e. receivables not considered available, or over sixty days after year-end). Accordingly, the financial statements report a restatement of the beginning net position in the amount of \$582,861, which was the amount of additional property tax receivable at June 30, 2012.

Gunnison Watershed School District RE-1J

Required Supplementary Information



Gunnison Watershed School District RE-1J
General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	2013			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget- Positive (Negative)
REVENUES				
Taxes:				
Property taxes levied for general purposes	9,878,656	9,819,607	9,745,131	(74,476)
Specific ownership taxes	700,500	700,500	708,645	8,145
Federal income	718,304	739,832	639,044	(100,788)
State income	2,704,081	2,959,423	3,064,656	105,233
Investment income	40,000	40,000	57,651	17,651
Other	190,280	239,925	266,787	26,862
Total revenues	<u>14,231,821</u>	<u>14,499,287</u>	<u>14,481,914</u>	<u>(17,373)</u>
EXPENDITURES				
Direct instruction	8,772,796	8,953,919	8,874,884	79,035
Indirect instruction	1,317,317	1,358,773	1,291,775	66,998
General administration	1,314,794	1,313,695	1,286,108	27,587
Support services	554,439	556,660	553,084	3,576
Custodial and maintenance	1,479,111	1,477,293	1,405,829	71,464
Transportation	601,416	609,693	634,550	(24,857)
Community service	3,000	600	385	215
Capital outlay	196,750	148,750	152,835	(4,085)
Total expenditures	<u>14,239,623</u>	<u>14,419,383</u>	<u>14,199,450</u>	<u>219,933</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>(7,802)</u>	<u>79,904</u>	<u>282,464</u>	<u>202,560</u>
OTHER FINANCING SOURCES (USES)				
Sale of fixed assets	-	700	702	2
Transfers (out)	<u>(1,332,797)</u>	<u>(1,360,000)</u>	<u>(1,360,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,332,797)</u>	<u>(1,359,300)</u>	<u>(1,359,298)</u>	<u>2</u>
NET CHANGE IN FUND BALANCES	<u>(1,340,599)</u>	<u>(1,279,396)</u>	<u>(1,076,834)</u>	<u>202,562</u>
FUNDS BALANCES, BEGINNING			<u>4,096,950</u>	
FUND BALANCES, ENDING			<u>3,020,116</u>	

The accompanying notes are an integral part of these financial statements.

Gunnison Watershed School District RE-1J

Supplementary Information



GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund
Balances - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	2013		
	Budgeted Amounts		Variance with
	Original	Final	Final Budget- Positive (Negative)
REVENUES			
Property taxes	4,556,825	4,547,425	17,593
Investment income	-	15,000	5,301
Total revenues	<u>4,556,825</u>	<u>4,562,425</u>	<u>22,894</u>
EXPENDITURES			
Debt service:			
Principal	1,620,000	1,620,000	-
Interest and fiscal charges	2,935,425	2,935,425	-
Other	1,400	1,400	-
Total expenditures	<u>4,556,825</u>	<u>4,556,825</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>5,600</u>	<u>22,894</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>5,600</u>	<u>22,894</u>
FUND BALANCES, BEGINNING			<u>3,588,879</u>
FUND BALANCES, ENDING			<u><u>3,617,373</u></u>

The accompanying notes are integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Capital Reserve Capital Projects Fund
Schedule of Revenues, Expenditures and Changes in Fund
Balances - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	2013		Variance with
	Budgeted Amounts		Final Budget-
	Original	Final	Positive
			(Negative)
REVENUES			
Other revenue	-	-	-
Total revenues	-	-	-
EXPENDITURES			
Technology	60,000	60,000	19,609
Total expenditures	60,000	60,000	19,609
EXCESS (DEFICIENCY) OF			
 REVENUES OVER EXPENDITURES	(60,000)	(60,000)	19,609
OTHER FINANCING SOURCES (USES)			
Transfers in	1,260,000	1,260,000	-
Total other financing sources	1,260,000	1,260,000	-
NET CHANGE IN FUND BALANCES	1,200,000	1,200,000	19,609
FUND BALANCES, BEGINNING			-
FUND BALANCES, ENDING			1,219,609

The accompanying notes are integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Student Activities Fund
Schedule of Revenues, Expenditures and Changes in Fund
Balances - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	2013			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget- Positive (Negative)
REVENUES				
Charges for services	733,727	449,929	702,067	252,138
Total revenues	733,727	449,929	702,067	252,138
EXPENDITURES				
Student activities	645,117	697,858	690,154	7,704
Capital outlay	1,200	1,200	475	725
Total expenditures	646,317	699,058	690,629	8,429
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	87,410	(249,129)	11,438	260,567
NET CHANGE IN FUND BALANCES	87,410	(249,129)	11,438	260,567
FUND BALANCES, BEGINNING			365,533	
FUND BALANCES, ENDING			376,971	

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Food Services Fund
Schedule of Revenues, Expenditures and Changes in Net Position
Assets - Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2013

	2013		
	Budgeted Amounts		Variance with
	Original	Final	Final Budget- Positive (Negative)
REVENUES			
Food sales	271,767	283,108	276,242 (6,866)
Federal aid:			
Federal government meal reimbursement	134,000	160,732	163,794 3,062
USDA Commodity contribution	4,000	19,445	17,168 (2,277)
State reimbursement	4,250	5,098	4,907 (191)
Transfers in	112,797	100,000	100,000 -
Total revenues	<u>526,814</u>	<u>568,383</u>	<u>562,111 (6,272)</u>
EXPENDITURES			
Salaries and employee benefits	304,248	304,104	300,587 3,517
Purchased services	1,650	1,650	954 696
Supplies	250	250	175 75
Food costs:			
Purchased food	188,540	230,253	260,357 (30,104)
Donated commodities	-	-	17,168 (17,168)
Depreciation	32,126	32,126	32,126 -
Total expenditures	<u>526,814</u>	<u>568,383</u>	<u>611,367 (42,984)</u>
CHANGE IN NET POSITION	<u>-</u>	<u>-</u>	<u>(49,256) (49,256)</u>
TOTAL NET POSITION, BEGINNING			<u>648,937</u>
TOTAL NET POSITION, ENDING			<u><u>599,681</u></u>

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Combining Balance Sheet
Schedule of Combined General Fund
June 30, 2013

	District General Fund	Preschool Fund	Total General Fund
ASSETS			
Cash and cash equivalents	5,216,267	1,375	5,217,642
Accounts receivable, net:			
Taxes	760,444	-	760,444
Other	196,792	-	196,792
Due from other funds	-	36,261	36,261
Prepaid expenses	16,528	-	16,528
	<u>6,190,031</u>	<u>37,636</u>	<u>6,227,667</u>
Total assets			
	<u>6,190,031</u>	<u>37,636</u>	<u>6,227,667</u>
LIABILITIES			
Accounts payable and accrued expenses	186,247	2,885	189,132
Accrued salaries	1,427,029	16,515	1,443,544
Due to component unit	175,351	-	175,351
Due to other funds	1,399,524	-	1,399,524
	<u>3,188,151</u>	<u>19,400</u>	<u>3,207,551</u>
Total liabilities			
	<u>3,188,151</u>	<u>19,400</u>	<u>3,207,551</u>
FUND BALANCES			
Non-spendable:			
Prepaid expenses	16,528	-	16,528
Restricted:			
TABOR	440,255	-	440,255
Colorado Preschool Program	-	18,236	18,236
Committed	1,761,022	-	1,761,022
Unassigned	784,075	-	784,075
	<u>3,001,880</u>	<u>18,236</u>	<u>3,020,116</u>
Total fund balances			
	<u>3,001,880</u>	<u>18,236</u>	<u>3,020,116</u>
Total liabilities and fund balances			
	<u>6,190,031</u>	<u>37,636</u>	<u>6,227,667</u>

The accompanying notes are an integral part of these financial statements.

GUNNISON WATERSHED SCHOOL DISTRICT RE-1J
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Schedule of Combined General Fund
For the Year Ended June 30, 2013

	District General Fund	Preschool Fund	Total General Fund
REVENUES			
Property taxes	9,745,131	-	9,745,131
Specific ownership tax	708,645	-	708,645
Federal income	639,044	-	639,044
State income	3,064,656	-	3,064,656
Investment income	57,651	-	57,651
Other revenue	266,788	-	266,788
Total revenues	<u>14,481,915</u>	<u>-</u>	<u>14,481,915</u>
EXPENDITURES			
Direct instruction	8,723,175	151,710	8,874,885
Indirect instruction	1,291,775	-	1,291,775
General administration	1,286,108	-	1,286,108
Support services	553,084	-	553,084
Custodial and maintenance	1,405,829	-	1,405,829
Transportation	634,550	-	634,550
Community service	385	-	385
Capital outlay	152,835	-	152,835
Total expenditures	<u>14,047,741</u>	<u>151,710</u>	<u>14,199,451</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>434,174</u>	<u>(151,710)</u>	<u>282,464</u>
OTHER FINANCING SOURCES			
Sale of capital assets	702	-	702
Transfers in	(1,511,710)	151,710	(1,360,000)
Total other financing sources	<u>(1,511,008)</u>	<u>151,710</u>	<u>(1,359,298)</u>
NET CHANGE IN FUND BALANCES	(1,076,834)	-	(1,076,834)
FUND BALANCES, BEGINNING	<u>4,078,714</u>	<u>18,236</u>	<u>4,096,950</u>
FUND BALANCES, ENDING	<u><u>3,001,880</u></u>	<u><u>18,236</u></u>	<u><u>3,020,116</u></u>

The accompanying notes are an integral part of these financial statements.



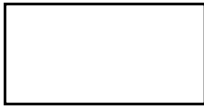
Colorado Department of Education
Auditors Integrity Report
District: 1360 - GUNNISON WATERSHED RE1J
Fiscal Year 2012-13
Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type &Number		Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental		+		-	=
10	General Fund	4,078,712	12,970,906	14,047,740	3,001,878
18	Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19	Colorado Preschool Program Fund	18,236	151,710	151,710	18,236
Sub- Total		4,096,947	13,122,616	14,199,450	3,020,113
11	Charter School Fund	191,813	368,070	371,045	188,838
20,26-29	Special Revenue Fund	0	0	0	0
21	Capital Reserve Spec Revenue Fund	0	0	0	0
22	Govt Designated-Purpose Grants Fund	0	0	0	0
23	Pupil Activity Special Revenue Fund	365,533	702,067	690,630	376,971
24	Full Day Kindergarten Mill Levy Override	0	0	0	0
25	Transportation Fund	0	0	0	0
31	Bond Redemption Fund	3,588,878	4,585,319	4,556,825	3,617,371
39	Non-Voter Approved Debt Service Fund	0	0	0	0
41	Building Fund	0	0	0	0
42	Special Building Fund	0	0	0	0
43	Capital Reserve Capital Projects Fund	0	1,260,000	40,391	1,219,609
Totals		8,243,171	20,038,072	19,858,341	8,422,902
Proprietary					
51	Food Service Fund	648,936	562,111	611,370	599,678
50	Other Enterprise Funds	0	0	0	0
64 (63)	Risk-Related Activity Fund	0	0	0	0
60,65-69	Other Internal Service Funds	0	0	0	0
Totals		648,936	562,111	611,370	599,678
Fiduciary					
70	Other Trust and Agency Funds	0	0	0	0
72	Private Purpose Trust Fund	0	0	0	0
73	Agency Fund	0	0	0	0
74	Pupil Activity Agency Fund	0	0	0	0
79	GASB 34:Permanent Fund	0	0	0	0
85	Foundations	0	0	0	0
Totals		0	0	0	0

FINAL

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your priorperiod adjustment is added into both your ending and beginning fund balances on this report.



Colorado Department of Education

Bolded Balance Sheet Report

District: 1360 - GUNNISON WATERSHED RE1J

Fiscal Year 2012-13

Colorado School District/BOCES

	Governmental						Proprietary				Fiduciary		
ASSETS	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Enterprise Fund 51 (Food)	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Cash and Investments (8100-8104,8111)	5,112,316	46,708	1,375	402,331	3,247,338	0	1,855	0	0	0	0	0	8,811,923
Cash with Fiscal Agent (8105)	103,951	0	0	0	23,033	0	0	0	0	0	0	0	126,984
Taxes Receivable (8121,8122)	760,444	0	0	0	347,000	0	0	0	0	0	0	0	1,107,444
Grants Accounts Receivable (8142)	187,016	0	0	0	0	0	20,524	0	0	0	0	0	207,540
Other Receivables (8151-8154,8161)	9,776	6,630	0	0	0	0	2,097	0	0	0	0	0	18,503
Inventories (8171,8172,8173)	0	0	0	0	0	0	4,224	0	0	0	0	0	4,224
Prepaid Expenses 8181,8182)	16,528	0	0	0	0	0	0	0	0	0	0	0	16,528
Machinery and Equipment (8241,8242,8251)	0	0	0	0	0	0	448,588	0	0	0	0	0	448,588
Total Assets	6,190,031	53,338	1,375	402,331	3,617,371	0	477,287	0	0	0	0	0	10,741,734

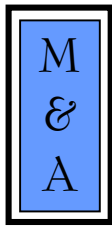
	Governmental						Proprietary				Fiduciary		
<u>LIABILITIES & FUND EQUITY</u>													
LIABILITIES	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Enterprise Fund 51 (Food)	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Other Payables (7421-7423)	169,039	3,839	1,375	31,255	0	0	1,820	0	0	0	0	0	207,327
Accrued Expenses (7461)	1,427,029	35,005	16,515	0	0	0	0	0	0	0	0	0	1,478,549
Payroll Ded. and Withholdings (7471-7473)	17,210	1,008	1,510	2	0	0	4,880	0	0	0	0	0	24,611
Deferred Revenue (7481)	0	0	0	0	0	0	8,667	0	0	0	0	0	8,667
Other Current Liabilities (7491,7492,7499)	1,574,875	-175,351	-36,261	-5,897	0	-1,219,609	-137,757	0	0	0	0	0	0
Total Liabilities	3,188,153	-135,499	-16,861	25,361	0	-1,219,609	-122,391	0	0	0	0	0	1,719,154

	Governmental					Proprietary					Fiduciary		
FUND EQUITY	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Enterprise Fund 51 (Food)	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Non-spendable Fund Balance 6710	0	0	0	0	0	0	0	0	0	0	0	0	0
Restricted Fund Balance 6720	0	0	0	0	3,617,371	0	0	0	0	0	0	0	3,617,371
TABOR 3% Emergency Reserve 6721	440,255	11,250	0	0	0	0	0	0	0	0	0	0	451,505
TABOR Multi-Year 6722	0	0	0	0	0	0	0	0	0	0	0	0	0
District Emergency Reserve (letter of credit or real estate) 6723	0	0	0	0	0	0	0	0	0	0	0	0	0
Colorado Preschool Program (CPP) Reserve 6724	0	0	18,236	0	0	0	0	0	0	0	0	0	18,236
Full-Day Kindergarten Reserve 6725	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk-Related / Restricted Capital Reserve 6726	0	0	0	0	0	0	0	0	0	0	0	0	0
BEST Capital Reserve 6727	0	0	0	0	0	0	0	0	0	0	0	0	0
Committed Fund Balance 6750	1,761,022	0	0	0	0	1,219,609	0	0	0	0	0	0	2,980,631
Assigned Fund Balance 6760	0	0	0	0	0	0	0	0	0	0	0	0	0
Unassigned Fund Balance 6770	800,601	0	0	376,971	0	0	0	0	0	0	0	0	1,177,571
Invested in Capital Assets, Net of Related Debt 6790	0	0	0	0	0	0	448,588	0	0	0	0	0	448,588
Restricted Net Assets 6791	0	0	0	0	0	0	151,090	0	0	0	0	0	151,090
Unrestricted Net Assets 6792	0	177,588	0	0	0	0	0	0	0	0	0	0	177,588
Prior Period Adjustment 6880	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Fund Equity	3,001,878	188,838	18,236	376,971	3,617,371	1,219,609	599,678	0	0	0	0	0	9,022,580
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Enterprise Fund 51 (Food)	Other Enterprise Funds 50, 52-59	Risk-Related Activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	Totals
Total Liabilities & Fund Equity	6,190,031	53,338	1,375	402,331	3,617,371	0	477,287	0	0	0	0	0	10,741,734
	General Funds 10,12-18	Charter School Fund 11	Preschool Fund 19	Special Revenue Funds 20-29	Debt Service Funds 30-39	Capital Projects Funds 40-49	Enterprise Fund 51 (food)	Other Enterprise Funds 50, 52-59	Risk related activity Funds 63-64	Other Internal Service Funds 60	Trust & Agency Funds 70-79	Foundations Fund 85	
For Each Fund Type: Do Assets=Liability+Fund Equity	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Gunnison Watershed School District RE-1J

Single Audit Reports and Schedules





McMAHAN AND ASSOCIATES, L.L.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

**To the Board of Education
Gunnison Watershed School District RE-1J
Gunnison, Colorado**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each component unit, each major fund, and the aggregate remaining fund information of Gunnison Watershed School District RE-1J (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit on the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Member: American Institute of Certified Public Accountants

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MICHAEL N. JENKINS, CA, CPA, CGMA
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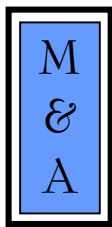
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INDEPENDENT AUDITOR'S REPORT
To the Board of Education
Gunnison Watershed School District RE-1J
Gunnison, Colorado

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McMahan and Associates, L.L.C.
December 17, 2013



McMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**To the Board of Education
Gunnison Watershed School District RE-1J
Gunnison, Colorado**

Report on Compliance for Each Major Program

We have audited the compliance of the Gunnison Watershed School District RE-1J (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibilities

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibilities

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based in our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

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INDEPENDENT AUDITOR'S REPORT
To the Board of Education
Gunnison Watershed School District RE-1J
Gunnison, Colorado

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based in the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

McMahan and Associates, L.L.C.
December 17, 2013

Gunnison Watershed School District RE-1J
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Part I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	None noted
Significant deficiencies identified	None reported
Noncompliance material to financial statements noted	None noted

Federal Awards

Internal control over major programs:	
Material weakness identified	None noted
Significant deficiencies identified	None reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	None Noted
Major programs -	
Title I Part A	CFDA# 84.010
IDEA Part B, Special Ed	CFDA# 84.027
Part B (IDEA), Special Education: Preschool	CFDA# 84.173
Dollar threshold used to identify Type A from Type B programs	\$300,000
Identified as low-risk auditee	No

Part II: Findings Related to Financial Statements

Findings related to financial statements as required by Government Auditing Standards	None noted
Auditor-assigned reference number	Not applicable

Part III: Findings Related to Federal Awards

Internal control findings	None noted
Compliance findings	None noted
Questioned costs	None noted

Gunnison Watershed School District RE-1J
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013

Note: There were no findings for the fiscal year ended June 30, 2012.

Gunnison Watershed School District RE-1J
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Program Title	Federal CFDA Number	Grant Project Code	Major Program (Yes/No)	Expenditures
Department of Education:				
Passed through Colorado Department of Education:				
Title I Part A	84.010	4010	Yes	\$ 209,609
IDEA Part B, Special Ed	84.027	4027	Yes	294,155
Part B (IDEA), Special Education: Preschool	84.173	4173	Yes	3,522
IDEA Part D, Preschool Pyramid	84.323	6323	No	3,000
Title III Part A	84.365	4365	No	10,480
Title II Part A, Teach and Principal Training and Recruiting	84.367	4367	No	60,246
Race to the Top Phase 3	84.413	4413	No	9,800
Carl Perkins Vocational & Applied Technology	84.048	4048	No	14,229
Total Department of Education				<u>605,041</u>
Department of Agriculture:				
Passed through Colorado Department of Education:				
School Breakfast Program	10.553	4553	No	37,071
National School Lunch Program	10.555	4555	No	126,723
Passed through Colorado Department of Human Services:				
Food Distribution, Commodities	10.555	4555	No	17,168
Total Department of Agriculture				<u>180,962</u>
Total Expenditures				<u>\$ 786,003</u>

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

Note 1. Basis of Presentation:

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Gunnison Watershed School District RE-1J the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the general purpose financial statements.

Note 2. Determining the Value of Non-cash Awards Expended:

Food Commodities: Fair market value of commodities at the time recipient receives award and the assessed value provided by the federal agency.

Note 3. Sub recipients:

Gunnison Watershed School District RE-1J did not provide any federal funds listed in the Schedule of Expenditures of Federal Awards to sub recipients.